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Poverty and inequality in Latin America: Meseconomic dimensions of justice and entitlements

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[Headnote]

ABSTRACT According to the present paper, absolute poverty and relative inequality have persisted in Latin America as a result of mutually reinforcing, and unfair, patterns of distribution of final private, broad, and total consumption and income. Furthermore, it is argued that the prevailing pattern, characterized by a vicious circle of distributive injustice in both consumption and income (production), can be broken only by mesoeconomic, sectoral constitutions and, thus, by public policies that uphold the principles of justice, freedom, and equality - on both the consumption and income (production) sides.

I. INTRODUCTION

Almost everywhere, people, including those in government, international organizations and academia, have indicated their concern regarding absolute poverty in general and the relative inequality in the distribution of consumption and/or income in particular. This concern is even more pronounced in the case of Latin America and the Caribbean because of the high level of absolute poverty and relative inequality that is presumed to exist in the region.

The present essay focuses on the sectoral, mesoeconomic dimensions of the origins of, and potential remedies (policies) for, absolute poverty and relative inequality in the distribution of consumption and/or income. These dimensions are important, in the opinion of this author, not only because they are critical to a better understanding of the nature and impact of the prevailing injustices and unsustainable entitlements, but also because they are usually neglected and frequently misunderstood.

Indeed, the persistence of absolute poverty and relative inequality in the distribution of consumption and/or income is a striking characteristic of most countries in Latin America and the Caribbean (Psacharopoulos et al., 1993; Mamalakis, 1996d). As we shall see, many observers ascribe the persistence of these twin problems to a failure of public policy. Those who take an interventionist approach (discussed in Section II) see these problems as the result of a "failure of the market." In contrast, those who follow a non-interventionist approach (discussed below, as well as in Section II) view this situation as the logical outcome of a "failure of government," whom they hold largely responsible for these problems.

The latter "non-interventionist" school, which advances the "failure of government" view, offers a two-pronged explanation for this situation. On the one hand, it argues that poverty and inequality have persisted because macroeconomic policies, both monetary and fiscal, have failed to attain their stated goals: i.e., price stability, high levels of saving and investment, and the rapid growth in productivity, income, and employment which would be conducive to reducing poverty and inequality. As a result, Latin America has not experienced sufficient poverty-reducing and inequality-reducing demand forces. On the other hand, poverty and inequality have persisted because neither have the microeconomic policies been successful: they have failed to lessen or remove widespread monopolistic/oligopolistic and monopsonistic/ oligopsonistic elements in the various markets -- labor, land, capital and product -- which reduce efficiency, thereby contributing to poverty and inequality. In consequence, Latin America has not experienced sufficient poverty-reducing and inequality-reducing supply forces. The quantity and quality of all factor services being supplied and used efficiently have thus fallen short of that level required to reduce poverty and inequality.

It is argued here that the prevailing non-interventionist approach, which focuses on the macro dimensions of monetary and fiscal policies on the one hand, and on the micro dimensions of the behavior of households and producers on the other, has emphasized correctly two of the three basic pillars of the public policy tripod - the micro and the macro - needed to achieve and sustain growth capable of reducing both poverty and inequality.

However, and at the same time, this view has neglected (or, at least, failed to make explicit) the third sectoral pillar of public policy - the meso - which certainly is equally, if not more, important and fundamental than either of the first two. Neglect of the mesoeconomic dimensions has given rise, on the one hand, to an incomplete, if not faulty, diagnosis of the problems of stagnation, (hyper)inflation, disequilibria in the balance of payments, poverty, and inequality; while it has contributed, on the other, to policies which have perpetuated, even aggravated, poverty and inequality. For example, starting in the 1950s, (hyper)inflationary fiscal and monetary macroeconomic policies affected economic performance negatively in a number of countries, including Argentina, Brazil, Chile, Mexico, Nicaragua, Venezuela, and Uruguay, among others. Furthermore, monopsonistic and monopolistic microeconomic policies -- which granted anticompetitive privileges (via multifaceted entitlements) to selected state and private enterprises, and to middle and upper income households, during both the period of laissez-faire (1820-1930) and the protectionist era (1930-1973) - have contributed to instability and stagnation in much of Latin America, thus weakening the war against poverty and inequality.

Poverty and inequality have persisted in Latin America due to the failure of government to formulate, much less implement, mesoeconomic, sectoral constitutions in agriculture, industry, mining and services that would ensure social justice and therefore be able to generate the accelerated sectoral (and, consequently, macroeconomic) growth needed to reduce both poverty and inequality. Let us now take a more detailed look at these issues.

II. THE NEED FOR MESOECONOMICS OF GOVERNMENT ALLEVIATING POVERTY AND INEQUALITY

As already pointed out, the hypothesis that perennial poverty and the skewed distribution of income in Latin America can, to a significant extent, be explained in terms of inadequate government policies is hardly a novel one.

Structuralists, Marxists, nationalists, dependistas, and those who generally favor government intervention (dirigisme) have argued that government policies have caused poverty and inequality during periods of laissez-faire (1820-1930) and **neoliberalism** (1973-present) via policies (free market, free trade, private enterprise, deregulation, and Central Bank autonomy) that have favored capitalists, foreigners, the rich, the educated, and elites in general at the expense of the truly needy, labor, and the weaker members of society (Mamalakakis, 1996b). According to this view, poverty and inequality can best be explained as a failure of the market. Ultimately, however, it is government, which is controlled by these power groups, that is being blamed, because it is the government that tolerates the markets, foreign trade, private ownership, and foreign forces that are too free (competitive), or too mono/oligopolistic, to be find it in their interest to advance the common good in Latin America. Government takes the blame because it is the institution that tolerates, even promotes, this failure of (private/free) market forces to act responsibly in promoting social equity. Only pervasive intervention by government on behalf of redistribution, it is argued, can eradicate absolute poverty and reduce the relative inequality of income - or, in other words, is able to promote justice. It can be said that the primary consideration of the pro-interventionists, who are often identified with the Left, is the principle of justice in consumption: they favor government action to promote justice through equality in consumption, regardless of the potentially high cost that redistributive policies may incur, in terms of lower income and production. According to this school of thought, welfare is maximized, and justice attained, by means of redistributive policies that equalize consumption. The social contract notion of justice advanced by Locke, Rousseau, Kant and, more recently, Rawls (1971), largely evolves around consumption-based welfare.

In contrast, (neo)liberals, (neo-)conservatives, structural-liberals, and many orthodox economists who favor free markets, free trade, free movement of factor services, private initiative and ownership, and deregulation (except in cases of monopoly) take another tack. They have argued that, especially (but not only) during the period of importsubstituting industrialization (1930-1973), absolute poverty and relative inequality in Latin America were largely the product of a number of factors working together: an excess of government regulation; the replacement of free, competitive markets by central planning; the crowding out of private enterprises by state-operated ones; excessive protectionism; and the unfair use of government powers (taxation [revenue], expenditure, and regulatory power) to expand the public sector. The latter factor, in particular, tended to promote and expand a new class (middle and upper) of public sector employees, employers, managers, bankers, middlemen, military, and the like, at the expense of more outcast, downtrodden sectors, who were systematically ignored, neglected, and even subject to discrimination (Mamalakakis, 1996b). According to this view, poverty and inequality can only be alleviated by a subsidiary government that facilitates and fosters private initiative, through free markets and trade, private property and contract guarantees, and eradication of all forms of entitlements in redistributing consumption and income. It can be said that the primary consideration of the noninterventionists, often referred to as the Right, is the principle of justice in production: they favor government action to promote justice in production by distributing income and, in a derived way, consumption among households, families, or individuals according to their contribution to output, even at the (possibly great) human and social cost (injustice) which can arise from inequality in private, semipublic, and collective consumption. Both the utilitarian notion of justice (espoused by Adam Smith, David Ricardo, Jeremy Bentham, and John Stuart Mill) and the libertarian notion of justice (advanced, more recently, by **Hayek**, 1960; Nozick, 1974; and even Locke, who is sometimes considered a libertarian as well) are basically non-interventionist in nature and largely income-oriented and production-based. It may be noted here that none of the authors of either the interventionist or non-interventionist schools define or consider justice in terms of its multiple dimensions affecting both consumption and income (production).

According to the mesoeconomic approach advanced here, it is in the mesoeconomics of government where both the diagnosis and solution of Latin America's pernicious problems concerning poverty and inequality are to be found. In a nutshell, it is argued that these mesoeconomic constitutions (of agriculture, mining, industry, trade, finance, education, health, transport, and so forth) have been distorted, i.e. they have perpetuated, even aggravated, poverty and inequality initially during the pre-1930 age of laissez-faire and, subsequently, during the era of structuralism (1930-1973) and, even more recently, during the epoch of structural (**neo**)liberalism since 1973 (Mamalakis, 1996a, 1996g, and 1996h). Furthermore, since all sectoral constitutions have been created and transformed by government, one must look for explanations of, and remedies for, the twin problems of poverty and inequality in the relationship that exists between the mesoeconomic constitution of government, on the one hand, and the mesoeconomic constitutions of all other sectors on the other hand.

According to the composite theory of justice (Mamalakis, 1996e) and the corresponding mesoeconomic approach, poverty and inequality have persisted during all these periods -- laissez-faire (1820-1930), structuralist (1930-1973), and structuralist (neo)liberal (1973+) because public policies have, at the same time, failed to promote justice in terms of both consumption and distribution of income (production). From Independence (1811-20) to the 1990s, all mesoeconomic constitutions failed, for the most part, to promote and satisfy the composite, production-and-consumption criterion of justice. To be both lasting and sustainable, justice and economic growth can be advanced only by pursuing, and respecting, principles of justice in production and consumption, a pursuit that must be complementary and integrated if it is to be successful. Before elaborating further on justice and entitlements and the relationship they bear to poverty and inequality, let us take a moment to define exactly what is meant by the mesoeconomics of government.

The mesoeconomics of government are here defined as the rules and regulations (constitution) of government on the one hand, and the actual value and nature of the collective, semipublic, and private commodities (goods and services) produced by the state as a consequence of these rules and regulations (i.e., constitution) on the other.

During the 1820-1930 laissez-faire era, poverty and inequality persisted because, almost everywhere in Latin America, governments were either unable and/or unwilling to produce collective (basic human, political, economic and social rights) and semipublic (education, health, welfare) services to promote the common good. The laissez faire mesoeconomics of government were intrinsically unjust in a number of respects. Governments created unfair, and ultimately unsustainable, entitlements for the middle and upper classes by producing collective and semipublic services for their benefit that were funded largely by transitory surpluses derived from mineral and agricultural resources, rather than from taxes on their incomes. Furthermore, governments violated the fundamental principle of justice in consumption by depriving other sectors of society - the indigenous populations, ex-slaves, women, and other rural and urban poor - of their fair share of the continent's common, natural riches by delivering only a few and/or inadequate collective and semipublic services to this underclass.

During the age of structuralism (1930-1973/90), the mesoeconomics of government underwent a radical transformation. Nevertheless, when viewed from the vantage point of poverty and inequality, these still remained as defective, and unfair to the needy and poor, as had been the case prior to 1930. From 1930 to 1990, almost all governments in Latin America, to some extent and at some point in time, (a) artificially promoted industry at the expense of agriculture, finance and trade, (b) raised protective walls against imports, and (c) relentlessly intervened in the market system. The basic principles of justice in production were almost universally violated. The state moved beyond the production of

collective and semipublic services into the production of private commodities, either through ownership, or control, of enterprises creating value added. Although these enterprises were primarily in the industrial sector, they also included, in varying degrees in various countries, other sectors of the economy. The structuralist mesoeconomics of government were characterized by establishing mesoeconomic constitutions in agriculture, mining, industry and services that were burdened by unprecedented distortions and disincentives to production and, parallel with this, unsustainable entitlements in the form of the below-cost consumption, by the privileged middle-to-upper classes, of collective, semipublic, and private commodities (goods and services). This violation of the fundamental production principles of justice, fairness, and equality in the markets for factor (labor, capital and land) services led to the stagnation, chaos, and hyperinflation of the 1980s decade, thereby reinforcing Latin America's historical pattern of poverty and inequality. By giving rise to mesoeconomic constitutions that were so distorted, in terms of production incentives, during the age of structuralism, the governments of Latin America reduced the growth of economic output (both sectoral and aggregate) and, especially, employment to levels that were significantly below those needed to reduce poverty and inequality. Furthermore, by establishing an unfair pattern of distributing consumption goods and services (private, semipublic and collective) that favored the middle classes and the rich, while simultaneously discriminating against the poor vis-ci-vis those same consumption goods (i.e., violating fundamental principles of justice), this pattern gave rise to the twin ills of unsustainable consumption entitlements for the privileged classes, coupled with the unnecessary, and counterproductive, deprivation of the poor.

It is consequently suggested that growth, prosperity, and equality can be achieved only through mesoeconomic constitutions of government in all of Latin America that operate to satisfy both the production and consumption criteria of justice. Such constitutions, based on fairness to all social segments, would promote the growth of output and employment in all sectors, via freedom and equality of treatment of all households and producers participating in input and output markets. And they would promote sustained growth by guaranteeing a fair share of private, semipublic, and collective consumption to the indigenous populations, the old, the sick, the orphans, the widows, women in general, and the truly disadvantaged rural and urban poor.

III THE NEED FOR A MESOECONOMIC CONSTITUTION OF GOVERNMENT THAT ENSURES LONG-TERM PRICE STABILITY

The hypothesis advanced here is that long-term price stability is a necessary, but by no means sufficient, condition for eliminating poverty and reducing inequality in Latin America because, without such stability, it will be impossible to achieve justice in either consumption or production of income. It is further argued that inflationary macroeconomic policies (both fiscal and monetary) have been responsible, to a significant extent, for the twin problems of poverty and inequality in Latin America because they contributed to distorted mesoeconomic constitutions in finance, agriculture, mining, industry, trade, education, health, transport and other service sectors, thus violating principles of justice in the distribution of consumption and income. As a consequence, output, productivity and employment growth, in almost all sectors, failed to achieve the levels needed to eliminate poverty and reduce inequality.

Because the relationship between macroeconomic monetary and fiscal policies and the mesoeconomic, sectoral constitutions and performance is both complex and far reaching, it cannot be fully examined here. However, a few of the mechanisms for interaction between macropolicies and mesoconstitutions and performance are mentioned nevertheless, because they relate directly to the persistence of poverty and inequality.

Fiscal policies that involve heavy deficit spending and subordinate monetary ones have been responsible for Latin America's runaway inflation: in 1989, the regional average rate was 1,205.7%; while the rate for individual countries could run much higher: 1,185.2% in Nicaragua (1988); 4,923.3% in Argentina (1989); 7,649.6% in Peru (1990); 8,170.5% in Bolivia (1985); and 1,863.6% in Brazil (1989) (CEPAL, 1993: 35). More recently, the average rate of inflation for the region has fallen; when computed on a 12-month basis, from August 1994 to August 1995, it fell from 1,120% to just 25%, the lowest level of the past 25 years (ECLAC, 1995: 7). Even so, unless inflation rates drop to, and remain, in the single digits for at least 3-5 decades, fiscal and monetary "macro" economic policies will continue to inflict major damage on the mesoeconomic constitutions of the respective countries.

More specifically, from 1930 to 1996, the repeated incidence of high rates of inflation have distorted the mesoeconomic constitutions of financial sectors in Argentina, Bolivia, Brazil, Chile (until 1973), Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Dominican Republic, Uruguay, and Venezuela. Even though the damage that the macroeconomics of inflation inflicted on the financial sector and its ability to produce financial services (financial value added) varied significantly from country to country, having been the highest in Nicaragua, Brazil, Peru, Chile (during Allende), Argentina, and Mexico and lowest in Panama (minimal inflation), still it has been so pervasive that it will take decades for the deep inflationary wounds to heal permanently (Mamalakakis, 1987). Although I place primary emphasis on the direct negative impact which inflationary macroeconomic (fiscal and monetary) policies exert on the financial sector, at the same time unprecedented damage is also inflicted on other sectors of the economy, because relative prices lose much of their signalling and allocative functions during periods of inflation.

Once "meso" fiscal and monetary policies are able to guarantee price stability (i.e., low single-digit rates of inflation), then the financial sector can develop, and maintain (enjoy), a constitution that will enable it to provide the financial services which the various sectors -- mining, industry, agriculture, trade, public administration and defense, and other service activities - need to grow sufficiently to reduce poverty and inequality. The term "meso" is used here to indicate that the sectoral output "value" of the government's fiscal and monetary policies is measured by the degree of price stability and the absence of inflation.

As long as fiscal and monetary policies are seen, and used, as macroinstruments by which the aggregate demand for output and, in a derived way, for labor can be increased (with inflation viewed as an innocuous symptom instead of a destructive anomaly), rather than as mesoinstruments whose aim is to achieve and maintain the price stability that is needed (and without which sound, viable, dynamic, mesoeconomic constitutions in finance, agriculture, industry, trade, transport, health, education, public administration and defense cannot exist), the war against poverty and inequality will remain doomed, and any gains in cyclical output and employment will be only Pyrrhic victories.

IV. THE NEED FOR A TRANSITION FROM POVERTY-TOLERATING TO POVERTY-ALLEVIATING MESOECONOMICS OF AGRICULTURE

ince so many of the poor, and even those considered only relatively S poor - i.e, those in the poorest 20% or 40% of households - live in rural areas (Psacharopoulos et al., 1993; Mamalakakis, 1996d), and since even many urban dwellers who come under the categories of absolutely or relatively poor have migrated from rural areas, a strategy that will alleviate poverty and reduce the degree of income inequality needs to have, as its central pillar, a transformation of the prevailing agricultural constitution

from one that tolerates poverty into one that is designed to alleviate poverty.

On the one hand, mesoeconomic constitutions for agriculture should create institutions that promote free markets for factor services and outputs, free trade, and private ownership. More specifically, all restrictions on the prices and trade of agricultural products should not only be eliminated permanently but also be constitutionally prohibited. The implicit and/or explicit indirect taxes which have historically been imposed on much of Latin America's agriculture have created disincentives that have reduced agricultural growth, to the detriment of overall growth as well, and have inflicted suffering and deprivation on the poorest households. Despite its imperfections, the post-1973 "Chilean miracle" of growth in both agricultural-forestry output and exports is too spectacular to be ignored and could well serve as a guide to the formation of a new, positive, dynamic class of mesoeconomic agricultural constitutions.

On the other hand, such agricultural constitutions should also work to facilitate the development of institutions that are capable of channeling agricultural surpluses into producing those services, both public and semipublic, that are needed if poverty is to be eliminated and inequality reduced.

However, by no means are free markets, free trade, private ownership of land and other natural resources sufficient, in and of themselves, to eliminate poverty and inequality, as the post-1973 Chilean developmental paradigm has, once again, demonstrated (see the article by David Hojman for discussion of some of the weaknesses in the Chilean model). Equally important is the need for all farmers and landowners to pay sufficient taxes on income and property, for the decentralized authorities to be able to supply basic collective services (like public administration and defense), as well as those semipublic services (like health, education, and welfare) that are needed to promote the common weal. However, certain conditions obtain: only if the larger, richer farmers pay their fair share of taxes; only if these taxes are reasonable (i.e., do not inhibit production); and only if the resources extracted from rural agriculture are utilized to advance the quantity and quality of the above-named services made available to, and used by, the absolutely and/or relatively poor (rather than for welfare and production-distorting subsidies to consumer and producer alike) - will Latin American countries have the agricultural mesoeconomic constitutions needed to lift themselves, by their own bootstraps, to a more generalized prosperity for all.

Universal justice will be served only to the extent that the government's fair and equal treatment of all rural producers (agricultural and non-agricultural) is matched and complemented by its ensuring that all households enjoy equally fair access to the public and semipublic services of government on a non-discriminatory basis. Thus production-justice must be matched by justice in the consumption of government provided services: both collective (public administration and defense) and semipublic (health, education, and welfare).

Unless Latin America replaces its traditional, caudillista mesoeconomic constitutions (i.e., which violate both the production and consumption principles of justice) with more enlightened, growthenhancing ones (i.e., which respect these principles), the inherited structures of production that have tolerated, even caused, poverty and inequality will remain entrenched (Mamalakakis, 1996a and 1996b).

Two additional aspects of these new, more desirable, mesoeconomic agricultural constitutions need to be emphasized. Both relate to public policy - i.e., to the mesoeconomic constitution of government - as, actually, do most of those discussed so far. As the post-1973 Chilean agricultural revolution has demonstrated, success can be marred, to various degrees, by environmental pollution and degradation. Mesoeconomic constitutions of agriculture that succeed in increasing output and exports on the one

hand, only to destroy air, water, natural habitat, and other environmental resources on the other, are just not sustainable - and therefore not acceptable.

A second concern, as the experience of some countries (Colombia, Mexico, Peru, Bolivia, etc.) has made manifest, is that the absence of enlightened mesoeconomic agricultural constitutions may inadvertently encourage development of an informal, "illegal," narco-agriculture. Diversification by farmers into narco-agricultural production may lead, in turn, to a relationship of coexistence between agriculture and government that ultimately contributes to corrupt mesoeconomics of government. Government mesoeconomic constitutions that have become narcobased (or even narco-influenced) have had, and likely will continue to have, as damaging an effect on the war on poverty and inequality as did the Great Depression of the 1930s, the excessive protectionism of the 1950s, or even the hyperinflation and chaos of the 1980s.

V. TRANSFORMING CAUDILLISTA MESOECONOMIC CONSTITUTIONS OF INDUSTRY AND MINING INTO DYNAMIC, EQUITABLE, CATALYTIC ONES

From the time of Independence to the 1990s, the mesoeconomic constitutions of industry and mining have been caudillista in nature - i.e., more conducive to sustaining poverty, than alleviating it - and compatible with inequality.

Unlike other historical experiences, the manufacturing industry in Latin America failed to grow rapidly enough to absorb the region's labor force, which was ever-expanding due to the natural increase of population combined with the effects of migration. The mesoeconomics of industry, in particular, constituted a major bottleneck to the growth of employment. Both before and after 1930, much of industry was capitalintensive, monopolistic or oligopolistic, frequently unionized, with wages kept artificially high via subsidies (both direct and indirect), manifold barriers to entry, and/or protection. As a consequence, the well-known, celebrated growth of industrial income in Brazil, Mexico, and other countries, of the 1960s and 1970s, failed to generate a parallel growth in employment.

The principles of justice in production were violated on a massive scale. First of all, the large industrial enterprises, including their employees, were subsidized, particularly if the enterprise was state-owned. The so-called formal industrial sector, which encompassed state-owned, privately owned, and even foreign-owned enterprises, was largely closed to members of the informal economy. The formal industrial sector was privileged in terms of government protection, subsidies, taxation, social security and other benefits. Among its employees and beneficiaries could be found a select group drawn from Latin America's upper classes, not just the middle classes, but also the well-to-do. Those who were excluded from participation, neglected and often suffering from discrimination, took refuge in the informal economy. The latter languished largely in poverty and knew the sting of inequality. The precepts of freedom, justice, and equality have not only been absent from most of Latin America's labor markets but even, upon occasion, outlawed. Entry into the more privileged labor markets of business and industrial enterprises, and other major producers, was blocked by an extensive network of all kinds of barriers: legal, institutional, social, and political. Inequality and injustice became institutionalized as plural, multiple, segregated labor markets were shaped by caudillista "social" policies. These policies, introduced by a variety of political regimes, created entitlements (ultimately unsustainable) for the select enterprises, and their employees, that made up the formal sector of the economy, while the poor majority were forced into the informal sector, deprived of the most fundamental rights of economic justice, freedom and equality (Mamalakakis, 1996e).

Because the economy was not oriented toward producing for export during the structuralist era of

protectionism and import substitution (1930-1973), the incentives for industry to break down the barriers between labor markets were low and thus favored maintenance of the unequal status quo (Mamalakís, 1996c). The "industrial enclaves" of the postwar years, from the 1950s to the '70s, were made possible by mesoeconomic constitutions that failed to respect the fundamental principles of justice in production. The result was that growth - of productivity, income, and employment -- suffered as the "compensation" allotted for labor, capital, land, and services was determined by power and status rather than by the contribution to output. The entitlements that involved a redistribution of resources to the favored segments of industry were made possible largely by means of depriving, or discriminating against, other activities or the informal segment of industry.

The caudillistic nature of the mesoeconomic constitution of industry weakened, rather than strengthened, the mechanisms of interaction between industry and other activities. With all mesoeconomic constitutions characterized either by unsustainable privileges and entitlements (industry, some services) or by discrimination and deprivation (agriculture, mining, finance, informal industry, and other activities), the complementary growth of all activities, which contribute vital value added components to the always composite consumer and capital commodities, failed to materialize. Because the caudillista system, in which resources were redistributed among and within sectors, among and within regions, between and among providers of factor services, served to violate basic principles of justice, freedom and equality, it also violated the fundamental principle of complementarity between sectors, producers, and suppliers of factor services, leading to hyperinflation, flight of capital, and the lowering of those other elements vital to economic growth, like productivity, savings, investment, efficiency, and employment growth - thus perpetuating the cycle of poverty and inequality.

Since industry, agriculture, and mining produce vital components, not only of such composite private commodities as food, clothing and shelter, but also of the composite semipublic services (commodities) of health, education, and welfare, the inadequate increase of their value added (incremental output) prevented Latin America from experiencing the rise in private and semipublic consumption which could have eliminated the multiple forms of lowered consumption imposed by poverty and reduced the inequality in the way the different types of consumption were being distributed. Failure to adhere to principles of justice in production caused final consumption to grow so slowly, particularly if population increase is taken into account, that the existing pattern of unfair distribution of consumption (private, semipublic, and public) which had been inherited was perpetuated. In turn, the inequities in the distribution of all forms of consumption served only to reinforce the injustices and inequalities on the income and production side, and in the underlying labor, capital, and land factor markets. A vicious circle of injustice, where production injustices led to consumption injustices that led, again and in turn, to more production injustices, has afflicted Latin America for too long to be considered as either a normal, or a necessary, phase in the process of economic development.

Not only has this vicious circle of injustice characterized the pre-1930 laissez faire paradigm as well as the post-1930 structuralist experiments, but it has also been an integral part of the Cuban totalitarian system. It will be broken only to the extent that the current process of privatization, liberalization, and stabilization, which is engulfing much of Latin America, is carried out with strict adherence to the aforementioned principles of distributional justice in consumption and income, as well as under conditions of freedom and equality (Mamalakís, 1996f). As Gustav Ranis has rightly pointed out in his essay, Latin America's abundance of natural resources has delayed introduction of those reforms needed to achieve self-sustaining growth. In addition, poverty and inequality have been so pervasive in the countries rich in natural resources because the surpluses they generated were not used (distributed) according to the principles of justice. Justice in consumption was also violated because the rents derived from mineral-agricultural resources were used to fund, at either no or below cost, semipublic and

collective services that were directed primarily, often even exclusively, to the middle and upper classes, while the poor and needy, and the excluded classes (indigenous populations, ex-slaves), were left to languish in neglect. However, those entitlements, based upon resource surpluses and enjoyed by the middle/upper classes, proved unsustainable over time because (1) the surpluses in question were both unstable and ephemeral, and (2) the degree of injustice and deprivation they inflicted on the poor and needy was unacceptable.

Furthermore, the unequal distribution and use of these surpluses also violated the principles of justice in production by favoring certain, selected (sub)sectors, producers, households and regions. These distributional patterns were unsustainable because they were based on rents from agriculture and mining that were both unstable and transitory. When these rents were appropriated primarily by the middle and upper classes, the truly poor and needy became not only neglected but ignored. Unless the governments of Latin America can establish constitutions to regulate these mining-agricultural resources that adhere to principles of justice in both consumption and production, the impact of the inevitable, though always fleeting, bonanzas to be reaped from mining and agriculture in the future is likely to be as caudillista in nature, and as unfair, as those in the past - and the efforts to reduce poverty and inequality will remain a mirage.

VI. THE TRANSITION FROM CAUDILLISTA TO EQUITABLE SEMIPUBLIC HEALTH, EDUCATION, AND WELFARE MESOECONOMIC CONSTITUTIONS

Despite certain significant exceptions and visible improvements over time, the mesoeconomic constitutions of education, health and welfare services have remained eminently caudillista from Independence to the 1990s (Mamalakis, 1996a and 1996b) in two fundamental respects.

On the one hand, the semipublic services of health, education, welfare have been distributed in a highly unequal, unsustainable manner for the benefit of the wealthy and the middle class, and to the neglect of the poorest 40-60% of households (Mamalakis, 1996h). Access of the poorest classes to these critical, developmental, final services has been well below the critical minimum level which would be needed to eliminate poverty and reduce inequality. This skewed arrangement, violating all principles of justice, fairness and equity in the consumption of semipublic services, has persisted throughout Latin America ever since Independence, and has been particularly marked in Brazil, Mexico, Peru, Guatemala, Honduras, Bolivia and Paraguay. If poverty and inequality are to be reduced, and made consistent with accelerated growth of the economy, the mesoeconomic constitutions of semipublic services must undergo a metamorphosis to ensure that their distribution be carried out on a much more fair, just, and relatively equal basis. This would require elimination of the caudillista mesoeconomic constitutions of semipublic services now in existence and their reconstitution in a way that would be consistent with, if not required by, principles of justice put forth by both the utilitarian-libertarian schools of thought (Mill, Bentham, Locke, Nozick) as well as those of the contractarians (Rousseau, Kant, Rawls).

On the other hand, this rectification of an unjust consumption arrangement must be accompanied by a drastic metamorphosis of the prevailing, caudillista mesoeconomic constitutions of semipublic and collective services from the production side as well if it is to be truly effective in attacking the roots of poverty. Consumption of semipublic and public services has been low, and unevenly distributed, because both the goods (agriculture, mining, industry, construction) and the services (finance, trade, transport, health, education and welfare) that create its value-added components (activities which make up the value added of semipublic consumption) have been so burdened by distorted, caudillista, mesoeconomic constitutions (Mamalakis, 1996c and 1996e). Because the incentives to produce have been either absent, inadequate, or distorted ever since Independence, the output of these underlying

activities has failed to grow at the speed needed to achieve both a higher level, and better distribution, of semipublic, public and, for that matter, private consumption. The violation of these fundamental principles of justice in production (i.e., unequal and discriminatory treatment of producers and suppliers of factor services), has meant that output (both sectoral and aggregate) and, ultimately, consumption (of services) and investment have been prevented from rising to the level needed for, and at a speed conducive with, the removal of absolute poverty and reduction of relative inequality.

VIL CONCLUSION

The "totality" of the state determines the "totality" of the welfare of people. Thus, the absolute poverty and relative inequality that have characterized the landscape of economic welfare in Latin America throughout its history cannot be separated from the "totality" of the state or, to use the terminology of this essay, the mesoeconomics of government.

Following Spengler (1932), Gongora (1981) has argued that the mission of the state is to "maintain the nation 'in form' ('maintenance of everything') for war, whether military or with spiritual weapons, economic or diplomatic war" (Gongora Escobero, 1990: 53). Unlike the aristocracy, clergy, and nobility of Europe, however, who were destined to promote the common good successfully, the elites of Latin America promoted a good that was far from "common" or available to all: it excluded many sectors of society, and sometimes even the majority. During the present century, and especially after 1930, when the state came under the control of the industrialists, unionized workers and the bourgeoisie, and was influenced by the proletariat or masses and the power of money (Gongora Escobero, 1990: 53), the "good" that was advanced was hardly a common good. Latin America's modern period of decadence, as described by Spengler and Gongora, has been characterized by a situation in which the various branches of government, whether legislative, executive or judiciary, have proved as unable to solve the problems of poverty and inequality and promote justice - a composite, multifaceted, consumption- and production-oriented justice - as had been the case in prior eras, when they were under the sway of the now weakened, if not defunct, aristocracy and nobility. A war against inequality was never seriously in the cards. For such a war to be waged seriously and won, it will be necessary for the Latin American states to marshal all the elements of their respective communities in order to promote, cooperatively, the interests of each and every group. Only then will it be possible to achieve, at long last, the elusive goal of promoting the common good - with a generalized prosperity and reduced inequality.

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